



Asia Pacific Accounting and Audit Services Sole Co; Ltd

House No. 01, Unit No. 01, Nongthatai Village, Chanthabouly District

Vientiane Capital, Lao PDR

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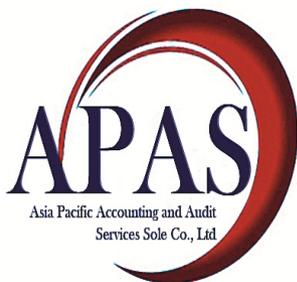
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Microfinance Association

(Funded by Deutsche Gesellschaft fuer Internationale Zusammenarbeit Gmbh, Saving Bank Foundation for International Cooperation, United Nations Development Program/United Nations Capital Development Fund, Appui au Developpement Autonome, Luxembourg, German Cooperative and Raiffeisen Confederation, Microfinance Center, Banking with the Poor Network, Small Enterprise Education and Promotion Network and Swiss Agency for Development and Cooperation and other donors).

Management Letter

31 December 2013



Asia Pacific Accounting and Audit Services Sole Co; Ltd

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Vientiane Capital, Lao PDR

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Ms. Pamouane Phetthany
Director
Microfinance Association
Vientiane Capital; Lao PDR

27 March 2014

Management Letter for the year ended 31 December 2013

Dear Ms. Pamouane

We have now completed our audit of the financial statements of the Microfinance Association (“the MFA”) or previously was known as Microfinance Working Group in Lao PDR (“MFWG”) funded by Deutsche Gesellschaft fuer Internationale Zusammenarbeit GmbH, Saving Bank Foundation for International Cooperation, United Nations Development Program/United Nations Capital Development Fund, Appui au Developpement Autonome, Luxembourg, German Cooperative and Raiffeisen Confederation, Microfinance Center, Banking with the Poor Network, Small Enterprise Education and Promotion Network and Swiss Agency for Development and Cooperation and other donors as at and for the year ended 31 December 2013. During the course of the engagement, we have reviewed the MFA’s accounting system and internal controls over its activities and, in accordance with our normal practice; we wish to highlight certain matters that came to our attention.

Our review of the accounting systems and internal controls was conducted to assist us in expressing an opinion on the financial statements of the MFA as at and for the year ended 31 December 2013. Our work was not primarily directed towards the discovery of weaknesses, or detection of fraud, or other irregularities, other than those which would influence us in forming our opinion, and should not therefore be relied upon to show that no other weaknesses exist. Accordingly, the comments that follow refer only to those matters which have come to our attention during the course of our normal audit work and do not attempt to indicate all possible improvements had a special review been performed.

We enclose a memorandum of the points we have noted during our audit together with our recommendations and the MFA Management’s comments. We also followed-up on prior year’s recommendation and included the status of each recommendation in the attached memorandum.

In order to assist the MFA Management in efficiently addressing the points we have noted and improve the MFA’s current system of internal controls, we have classified our findings and recommendations under the following categories:

- **High Priority:** This is very critical to the MFA’s operation and strategy in the short-term hence, requiring immediate actions within 12 months or, this will have very significant financial consequence.
- **Medium Priority:** This is essential for the MFA’s operation and strategy in the next 2-3 years or somewhat having significant financial impact.
- **Low Priority:** This is important for the MFA to consider for its operation and strategy in the long-term which, nevertheless, require improvement. It has no immediate or significant financial impact.

We summarise below the areas highlighted in our Management Letter.

No.	Recommendations	Level of priority
1.	<p>We recommend that the MFA should take high priority to finalise, approve and implement its operation manual to strengthen the control over its cash receipts and disbursements. This would be easy for MFA's staffs to follow their functions.</p> <p>The operation and accounting manual should also address the current weaknesses in the system; aid in establishing a uniform and consistent approach in the preparation of the MFA's financial reports; aid in evaluation present procedures and in formulating new ones, when required, and be used in the orientation and training of new personnel.</p>	High
2.	<p>We recommend that the MFA Management should double check this fixed assets and the description of the fixed assets in the fixed assets registration should be the same with the physical assets to avoid misunderstanding of the MFA Management during their performing physical inspection.</p>	Medium
3.	<p>We recommend that upon the MFA receive the permanence license from the Ministry of Home Affairs, the employees contracts should be replaced the consulting contract and the MFA should calculate, withhold and remit the PIT to the tax authority by base on the current Lao Tax Law (revised version date 20 December 2011. The PIT should be declared and remitted not later than 15th day following the end of the month.</p>	High
4.	<p>We recommend that all payment vouchers should be signed by all authorised person as mention in the voucher form to ensure the completeness and appropriation of expenditure.</p>	High
5.	<p>We recommend that the MFA Management should review actual expenditures against budget regularly in order to timely identify the financial status of the MFA and any material budget variance should be identified, investigated and documented.</p>	High

We shall be pleased to be kept informed of future developments/changes in the internal control procedures and, in the meantime, please do not hesitate to contact us if you require further explanations or information

We take this opportunity to place on record our appreciation for the assistance and co-operation extended to us by the MFA Management and its staff during our recent audit.

Yours faithfully



Ounheuan Amkhavanh
Managing Director

Vientiane Capital

27 March 2014

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Management Letter
31 December 2013

1. MFA Management should be finalised, approved and implemented an operation manual and a financial guideline.

Observation and Implication

We understand that the MFA Director has completed the second draft version of the operational manual and accounting manual which including the details of an organizational chart, detailed description of positions, duties and responsibilities of staff, detailed description of accounts methods, procedures and accounting principles, detailed description and frequency of report to be prepared, described a chart of accounts and described accountable documents or forms to be used and its internal control procedure and procurement guideline. However, as of our audit visit date (27 March 2014), this operation manual has not been finalising yet.

Implication

No finalised , approved and implemented the operation manual expose the MFA to the risk that the responsibility over specific tasks and functions is not fixed, transactions are not properly, timely and consistently accounted for, reviewed, approved and reported. Consequently, the financial statements may not reflect a true and fair view of the MFA's financial position and receipts and disbursements. The MFA would also lack of the evidence to support the external auditor during their review the MFA's books or records.

Recommendation

We recommend that the MFA should take high priority to finalise, approve and implement its operation manual to strengthen the control over its cash receipts and disbursements. This would easy for MFA's staffs to follow their functions.

The operation and accounting manual should also address the current weaknesses in the system; aid in establishing a uniform and consistent approach in the preparation of the MFA's financial reports; aid in evaluation present procedures and in formulating new ones, when required, and be used in the orientation and training of new personnel.

MFA Management's response

MFA Management fully agrees with this recommendation, the 2nd draft is already in place, the final version will be ready latest by the Middle of May 2014.

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Management Letter (continued)
31 December 2013

2. Control and monitoring over fixed assets should be improved.

Observation

It's also noted that the HP desktop server amounting to LAK 12,177,000 was described as Dell Desktop server on the fixed assets registration.

Implication

Wrong description on the fixed asset exposes the MFA to the risk that it's not possible to reconcile between the fixed assets in the fixed assets registration and the physical fixed assets. The wrong description assets would not found during the MFA Management performs physical inspection over fixed assets.

Recommendation

We recommend that the MFA Management should double check this fixed assets and the description of the fixed assets in the fixed assets registration should be the same with the physical assets to avoid misunderstanding of the MFA Management during their performing physical inspection.

MFA Management's response

The Management checked again and the description was already changed from "DELL" to "HP" beginning of 2014 based to the invoice and receipt. "Dell" was wrong typing.

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Management Letter (continued)
31 December 2013

3 Ensure compliance with prevailing Tax Law to avoid possible penalties

Observation and Implication

We understand that the MFA have received the temporary license from the Ministry of Home Affairs ("MOHA") for establishing an association in the Lao PDR. We also understand that the MFA has prepared the consulting contract for hiring consultant. Therefore, during the year, the MFA did not calculate, withhold, declare and remit personnel income tax ("PIT") to the tax authorities in according to the Article No 45,46,47,48,49,50 of the Tax Law of Lao PDR (revised version date 20 December 2011). However, we would like to draw attention that when the MFA receive the permanence license from the MOHA employee contracts should be maintained and replaced the consulting contract and the PIT should be calculated, withhold and remitted to the Tax Authority.

Implication

No calculation, withholding, declaration and remittance of the personnel income tax to the tax authority may result in penalties being levied to both the MFA and its employee should the Revenue Department perform an inspection of the MFA's books and records.

Recommendation

We recommend that upon the MFA receive the permanence license from the Ministry of Home Affairs, the employees contracts should be replaced the consulting contract and the MFA should calculate, withhold and remit the PIT to the tax authority by base on the current Lao Tax Law (revised version date 20 December 2011). The PIT should be declared and remitted not letter than 15th day following the end of the month.

MFA Management's response

The MFA ensures that this is addressed as soon as the MFA has received its association permanent license and official stamp.

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Management Letter (continued)
31 December 2013

4. Control over cash disbursement should be improved

Observation

We understand the previous payment voucher would be prepared by Office Manager, certified by MFWG Advisor and approved by the Chair of MFWG. However, it's noted that there are some payment vouchers were not completely signed by those authorised person. See details in Appendix I.

Implication

No completed signatures of the authorised person on the voucher expose the Association to the risk of misappropriation payment and fund usage.

Recommendation

We recommend that all payment vouchers should be signed by all authorised person as mention in the voucher form to ensure the completeness and appropriation of expenditure.

MFA Management's response

MFA management will follow up on the signatures and get signed by 9th of April 2014

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Management Letter (continued)
31 December 2013

5. The budget variance analysis should be documented.

Observation

During the course of audit, we understand that the MFA prepared the comparison between the approved budget and actual expenditure for each budget line at the end of the year and the explanation for the variance between the budget and actual has been provide for ADA-Luxembourg, however, it's noted that the explanation were not documented for the donor named: SBFIC (budget in the contract) and SDC.

Implication

The absence of explanation and documentation the variance between approved budget and actual expenditure may lead to the errors, irregular transactions not being detected and corrected on a timely basis.

Recommendation

We recommend that the MFA Management should review actual expenditures against budget regularly in order to timely identify the financial status of the MFA and any material budget variance should be identified, investigated and documented.

MFA Management's response

The MFA management ensures the follow up and implementation in the future.

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Management Letter (continued)
31 December 2013

6. Follow up the previous year's management letter points

Areas of comments	Year	Recommendation	Implementation status in the year	MFA Management's response
1. MFWG Management should establish and implement an operation manual and a financial guideline.	2012	The MFWG's hand book should be maintained, formalized, and made available to all staff in the form of an operation manual. The MFWG should combine the information in a hand book including an organizational chart, description of staff positions, duties and responsibilities, detailed description of accounts, methods, procedures and accounting principles, detailed description and frequency of report to be prepared, chart of account, description of accountable documents or forms, description of internal control procedure and procurements guideline which are separately documented.	Partly implemented. Refer to current year point No. 1. The operation manual has been drafting by the MFA Director. However, now, the second draft of the operation manual is reviewing by the MFA Director/Advisor and expecting to complete by May 2014.	Refer to current year point No 1.
2. Control and monitoring over fixed assets should be enhanced.	2012	<ul style="list-style-type: none"> The MFWG Management should perform a full physical verification of fixed assets at least once a year by a person independent to the custody of the assets. The result of count should then be reconciled with the items listed in the fixed asset register. And any differences ie. Lost or unaccounted assets should be investigated and resolved on a timely basis. The result of the fixed assets count should be reviewed and approved by a designated representative of the MFWG Management. 	Implemented.	Not applicable.

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Management Letter (continued)
31 December 2013

6. Follow up the previous year's management letter points (continued)

Areas of comments	Year	Recommendation	Implementation status in the year	MFA Management's response
		<ul style="list-style-type: none"> All fixed assets of the MFWG should be tagged with an authorised registration number or a particular sign in order to strengthen control over the physical existence of assets. And on the other hand, Identification numbers should be assigned and affixed to each asset in order to facilitate easy identification of the MFWG's assets during physical verification and cross references should be made to the fixed asset register to facilitate checking these assets against the register. 	Implemented.	Not applicable.
3. Ensure compliance with prevailing Tax Law to avoid possible penalties		<p>We recommend that the MFWG should make clear and request for the tax exemption letter with the tax authorities and Ministry of Finance when its registration licence is issued.</p> <p>In the case of the tax authority and Ministry of Finance did not allow for tax exemption, the personnel income tax ("PIT") of the MFWG's employee should be calculated on gross income including al allowances and other benefits, which are deemed assessable income. PIT should be deducted monthly and remitted to the tax authorities not later than 15th day following the end of the month.</p>	Not yet implemented. Refer to current year point No. 3. The MFA would declare and remit the PIT upon it receives the permanence license from the Ministry of Home Affairs. The MFA Management expect to receive it in April 2014 and MFA would start implement the PIT declaration from April 2014 onward.	Refer to current year point No. 3

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Management Letter (continued)
31 December 2013

6. Follow up the previous year's management letter points (continued)

Areas of comments	Year	Recommendation	Implementation status in the year	MFA Management's response
		All expenditures on personnel income tax should be supported by original tax authorities invoice.		
4. Segregation of duties between cashier and accountant should be done	2012	We recommend that roles and responsibilities between cashier and accountant functions be handled by different individuals to strengthen control over cash and bank transactions in the MFWG.	Implemented.	Not applicable.
5. Control over cash disbursement should be improved	2012	All payment vouchers and supporting documents should be immediately stamped "PAID" once payment is processed. The same should be done on bills and invoices once presented for reimbursement or as supporting document to an advance that is being liquidated.	Implemented.	Not applicable.

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Management Letter (continued)
31 December 2013

Appendix I: No completed signature of the authorised person on the payment vouchers

No.	Reference No.	Code A	Code donor	Date paid	Description	Amount in LAK	Comment
1	14	16		17/6/2013	Transportation allowance for BOD (Mr. Somchith B, Somchit D and Mr. Saysamone))	2,200,000	No signature of the chair of MFA and MFA Advisor on the payment voucher
2	15	16		17/6/2013	BOD fee for attending BOD Meeting (Mr. Bandith, somchit D, Somchit B, saysamone, Chantha)	1,500,000	No signature of the chair of MFA and MFA Advisor on the payment voucher
3	10	12	OVC	24/7/2013	Fuel for Pamouane car go to visit DMI @ 75 KM roundtrip	67,000	No signature of the approver on the payment voucher
Total						3,767,000	